

## The Fiscal Council assesses potential fiscal and macroeconomic consequences of the Coalition Agreement

Having examined the measures in the Coalition Agreement, the Fiscal Council established that consistent implementation of these measures could distance Slovenia from its medium-term fiscal objective and ensuring fiscal sustainability. Considering the position of the economy, this would translate as procyclical and hence unsuitable fiscal policy.

The *Coalition Agreement on Cooperation within the Government of the Republic of Slovenia in the 2018–2022 term-of-office* provides only the government's general guidelines. The Fiscal Council does not evaluate the suitability of measures envisaged by the Coalition Agreement but gives an overall assessment of their impact on fiscal sustainability. As the content and the time-line of the envisaged measures are not fully defined, it is difficult to assess more precisely their fiscal and macroeconomic consequences. Therefore, the assessment and simulation results may be considered merely as an indication of possible risks associated with the full implementation of the Coalition Agreement. On the basis of the autumn budget documents it will be possible to assess more accurately the actual direction of the fiscal policy.

The basic framework of the Coalition Agreement indicates a considerable increase in the general government expenditure, with respect to which the objectives are presented more in detail, and an increase in taxation of households and the economy with a much less detailed plan of measures. In order to ensure fiscal sustainability, the list of priority areas of expenditure should be shortened or expenditure in other areas reduced or revenues significantly increased through measures that at this point mostly cannot be quantified. The measures from the Coalition Agreement would in the short run provide further impetus to the high economic growth at the expense of a worsened fiscal situation and other macroeconomic balances.

The Coalition Agreement does not adequately tackle the long-term risks to fiscal sustainability that are primarily linked to demographic change and the funding of social protection systems, or some of its anticipated measures even increase the risks in these areas.

The Fiscal Council expects that the government will pursue fiscal sustainability with the measures it will adopt. The awareness of the fiscal risks or taking them into consideration is usually not adequate during an economic upswing. Owing to the current relatively high level of public debt, the fiscal space would be restricted in case of new negative shocks hitting the Slovenian economy.